129 YEARS

Have Taught Us Many Things…

Davis + Henderson

Income Fund

2003 ANNUAL REPORT

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In addition to historical information, this annual report may contain forward-looking statements, subject to risks and uncertainties beyond management's control. Actual results could differ materially from those expressed in this report. Risk factors are discussed in the Annual Information Form ("AIF") filed with the Ontario Securities Commission by Davis + Henderson Income Fund.

DAVIS + HENDERSON

was founded in 1875 to serve the needs of Canada's financial institutions.

Over the decades, much has changed. Canada's financial institutions have grown dramatically and the services offered by the country's banks, credit unions and caisses populaires have broadened significantly to serve expanding business and consumer needs.

Davis + Henderson has kept pace with this change. Today, we are the leading provider of cheque supply programs to Canada's financial institutions. Beyond that, we have expanded our programs to include the supply of a wide range of deposit and accessory payment products. More recently, we have introduced account-opening services that help financial institutions further entrench relationships with their customers.

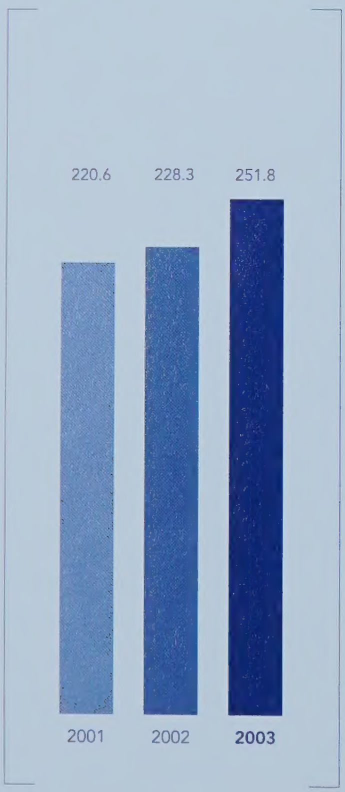
Davis + Henderson's long and successful track record in business has taught us many valuable lessons and we proudly present several examples in this annual report.

The Power of COMMITMENT

We believe in the power of commitment and have committed ourselves to delivering increasing value to stakeholders.

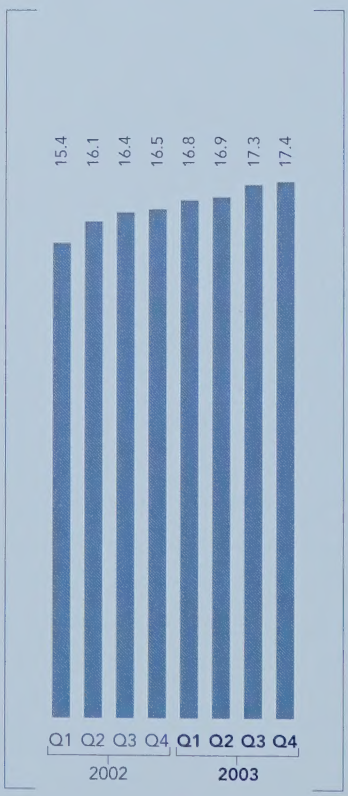
For unitholders, our objective is to deliver stable and growing cash distributions. To do this, we strive to achieve annual sales growth in the 3% to 5% range while maintaining our operating margins at traditional levels. Since listing on the Toronto Stock Exchange in December 2001, we have met our commitment to unitholders by increasing distributions three times. In 2003, Davis + Henderson Income Fund made distributions to unitholders of $1.36 per unit, a 3% increase over 2002.

Three Year Revenue
($ millions)



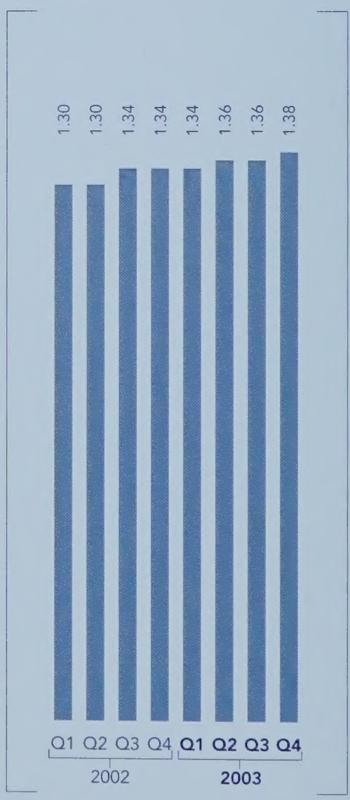
Stable and Growing Revenues

Quarterly Operating Cash Flow
($ millions)



Stable and Growing Cash Flows

Annualized Monthly Distribution
($ per unit)



Stable and Growing Distributions

The Importance of Customer RELATIONSHIPS

Over the past century, our products and services and the programs we offer have changed fundamentally. But this change hasn't altered our philosophy. We focus our entire organization on meeting the needs of Canada's financial institutions. We believe these customer relationships are our most important asset and are key to our success, past, present and future.

In delivering both new and existing programs, we seek to constantly increase the value we create and, at the same time, offer solutions upon which our customers can always rely. By doing this successfully year in, year out, our customers have come to trust us to deliver products and services directly to their most valued asset: their customers.

Today, Davis + Henderson is an integrated supplier to the retail operations of the country's financial institutions. We deliver cheque supply programs and related services on behalf of our customers to 20 million individual account holders as well as cheque and deposit programs to more than one million small business enterprises.

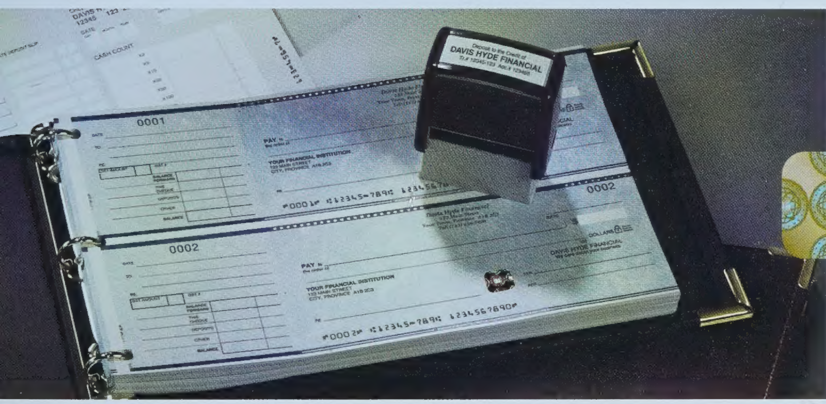
By understanding the importance of these relationships and nurturing them over the decades, Davis + Henderson is positioned to meet its customer commitments in the future.

The Need to Constantly EVOLVE

DAVIS + HENDERSON is not the same business it was 50 years ago, or even 10. We have changed in response to marketplace needs and believe constant evolution has been one of the basic elements of OUR SUCCESS.

The evolution of Davis + Henderson is evident in all areas of our business, starting with our products. In earlier eras, we primarily sold generic, "plain blue" cheques. Today, we offer a wide range of specially designed cheques under our *Express Yourself* and *Advanced Security Measures* "ASM"™ banners. *Express Yourself* designs allow consumers to use their cheques to display personal interests (including golf and hockey), nature (including scenes of mountains and Group of Seven art), fun designs (including comic characters) or to choose from many classical designs. *ASM* offers a comprehensive combination of cheque program security features including holograms, foil stamping, fluorescent fibres, and security ink, to help protect business users.

The way we transact business has also evolved. A decade ago, orders were paper-based and flowed through the branches of financial institutions to Davis + Henderson. In 2003, 70% of orders came to us electronically. As well, a growing percentage (11% in 2003) of orders were placed with us directly, rather than through financial institution branches, as a result of two new programs we introduced recently: Cheque*Central* and Cheque*Advisor*. Cheque*Central* is our web-based electronic product catalogue for in-home and in-branch ordering that reduces cost, improves consumer convenience and more effectively markets



A unique hologram heads the list of industry leading security features available on many of our cheques.

our broad range of product solutions. Cheque*Advisor* is a program that allows telephone ordering for those consumers who value the convenience of direct contact and the advice they receive from Davis + Henderson staff during the purchase process.

The evolution of our business is also evident in a third area: the addition of complementary programs that lever the capabilities and infrastructure established to deliver cheque supply programs. By levering capabilities such as data management and fulfilment to better serve our customers, we've expanded our sources of revenue to include programs built around account openings and account deposits. For example, in late 2003, we introduced our Cheque*Essentials* program which bundles cheques together with personalized products for small businesses including deposit books, binders and endorsement stamps. As well, we continue to evolve our *eSwitch* program for financial institutions. As part of the account opening process in several financial institutions, *eSwitch* assists consumers to easily redirect electronic pre-authorized payments and direct deposits from one account to another.

Over the years, Davis + Henderson has transformed its value proposition and learned that the need to evolve is constant and the benefits of doing so are significant.

A Message from the INDEPENDENT DIRECTORS

It's our pleasure, as the independent directors, to provide this brief report on governance of the Fund.

Davis + Henderson is compliant with all of the governance guidelines recommended by the Toronto Stock Exchange.

The Fund has three trustees, all of whom are independent of management. The trustees direct the Davis + Henderson operating business through an appointed, seven-person Board of Directors that includes the three trustees. Of the seven directors, five are independent, unrelated directors and two are management representatives – Sanford McFarlane and Bob Cronin. Both Mr. McFarlane and Mr. Cronin sit on the Board, but neither are members of our two committees, the Audit Committee and the Compensation and Corporate Governance Committee.

The Board has a written mandate and that mandate includes the approval and monitoring of the strategic, business and financing plans of Davis + Henderson, succession planning for senior management, risk assessment and ensuring the integrity of the reporting and information controls that enable us to function effectively.

The Audit Committee has responsibility for monitoring the activities of the Fund's independent auditors and the financial reporting process and systems of controls. It is responsible for reviewing, and recommending to the Board, for approval, corporate filings to the public and securities administrators, including both the interim and annual financial statements. Our Audit Committee meets regularly with the external auditors without the presence of management.

The Compensation and Corporate Governance Committee's activities are devoted to reviewing the Fund's governance activities, monitoring the performance and compensation of senior management and the Board, management succession planning and reviewing any related party transactions. As well, this Committee is responsible for finding, recommending, orienting and educating new directors.

Each director and officer owns units in the Fund so that our interests and the interests of public unitholders are aligned. Further, we have policies on minimum unit ownership for Board members and the executive team.

The Board fosters a culture that permits healthy discussion and debate. Time is also allocated at each Board and committee meeting for the directors to meet without management present. These practices should give all unitholders, prospective and current, confidence that we are managing our affairs in a professional, independent manner.

More comprehensive information on our Fund's governance practices can be found in our management information circular that is available online at the Fund's website www.dhif.com. Overall, our goal as directors is to add value by contributing our prior experience and expertise as well as our knowledge of Davis + Henderson to make this business an even stronger enterprise for the future.

Fiscal 2003 was a good year for unitholders. Monthly distributions were increased twice – in April and October – bringing the total distribution to $1.36 per unit in 2003. Supporting this increase in distributions was growth in revenues and cash flow in line with our targets. This performance demonstrates Davis + Henderson's ability to grow in a mature market.

In closing, we extend our sincere appreciation to all of those who contributed to this performance. Additionally, we wish to thank our unitholders for the confidence they've expressed in the Davis + Henderson team. All stakeholder groups have our commitment that we will continue to do our best for you in 2004.

Paul Damp
Trustee and Director

Allan Gotlieb
Trustee and Director

Bradley Nullmeyer
Trustee and Director

Helen K. Sinclair
Director

Gordon J. Feeney
Director

Sanford McFarlane
Chief Executive Officer

Bob Cronin
President and Chief Operating Officer

Looking Forward: MANAGEMENT'S PERSPECTIVE ON THE FUTURE

Over its history, Davis + Henderson has recognized that ensuring customer satisfaction and developing new services to meet changing needs are the keys to support future growth.

Here, Sanford McFarlane, Chief Executive Officer, and Bob Cronin, President and Chief Operating Officer, discuss Davis + Henderson's opportunities and strategies for the future.

Q&A

FIRST, LET'S START WITH THE CONCLUSION – WHAT DO YOU WISH TO CONVEY TO READERS OF THIS REPORT ABOUT THE FUTURE OF THE COMPANY?

Simply that we have a positive future. We believe we can continue to meet our objectives on behalf of key stakeholders. For unitholders, we are focused on delivering stable and growing cash distributions. This will be accomplished by delivering increasing value to our customers, which should allow us to expand revenue in the 3% to 5% range annually. We look to achieve this growth by enhancing and expanding our cheque supply programs and extending the programs we offer to Canadian financial institutions.

YOUR REVENUES CONTINUE TO GROW NICELY, EVEN THOUGH PEOPLE ARE WRITING FEWER CHEQUES – HOW IS THAT POSSIBLE?

The long answer to this question involves considering the sources of our revenue, all of the trends affecting revenue and how we've positioned the business to respond to each. Nearly all of our revenue relates to serving the financial institutions' requirements for their small business and individual customers who, in 2003, accounted for about 44% and 48% of our total revenues, respectively.

Small businesses use cheques as their primary payment method because they favour the record keeping and control that cheques offer. Businesses also use many other cheque-related and personalized products we provide. Davis + Henderson is able to deliver convenience and value to business users as they order our products. Our experience and future expectation is that revenues from our customers' small business accounts will continue to grow.

WHAT ABOUT ON THE INDIVIDUAL CONSUMER SIDE?

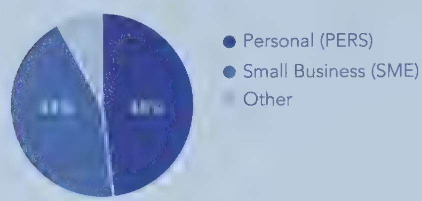
Our expectation is that we can grow revenue on the individual or personal side too, but the trends are different. Individuals tend to use many payment products that compete with cheques – with the result that they use cheques less frequently than they did a decade ago. Cheque usage related to the products we supply has been declining slowly since 1990.

While this is a negative trend for us, it's important to realize that cheque usage is only one of several drivers of our revenue. A closer review of our revenue components shows why. In our business, we have new orders, which are primarily driven by new account openings. We also have reorders, which are driven primarily by the need to replenish supply. In 2003, half of our total revenue came from cheque reorders and the other half from a combination of new orders and other products.

WHY IS THIS DISTINCTION IMPORTANT?

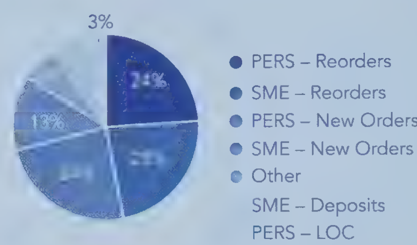
Because cheque usage only impacts reorders. Further, only 24% of our revenue in 2003 came from personal reorders and, as such, are impacted by personal cheque usage. Additionally, as individuals use fewer cheques, the time between reorders increases. However, consumers have tended to move towards smaller order quantities and are choosing more options and these factors partially mitigate the impact of reduced cheque usage. Netting it all out, our plans are based upon the assumption that our orders will continue to decline in the low single digits, but we believe we have programs that will offset this decline.

Revenue Split Between Small Business and Individuals



Revenue is split fairly evenly between personal and small business consumers.

Reorders vs. New Orders



Only 24% of our revenue is affected by personal cheque usage.

SO WHAT'S THE BOTTOM LINE ON THESE TRENDS?

There are many trends that impact on our business and, on balance, we're growing. New account openings by both individuals and small businesses provide us with a large and stable source of revenue. Expanding the value of our cheque offerings has allowed us to grow our average order value. And we have a number of other programs that are providing new sources of revenue. Overall, on a net basis, these trends are positive.

LOOKING FORWARD, HOW DO YOU INTEND TO GROW?

By applying three main strategies. *First*, continue to grow profits from our core cheque supply program, which remains fertile ground for us. *Second*, use the capabilities we put in place for the cheque supply program to introduce and expand what we call complementary programs and services. *Third*, serve our Canadian bank customers as they move into the United States.

HOW DO YOU INTEND TO GROW PROFITS IN YOUR CORE CHEQUE SUPPLY PROGRAMS?

In part, by increasing the value of the products and services we offer. Late each year, we introduce new and enhanced products, and in the fall of 2003 we applied this strategy again by arranging for additional licensed products and new affinity arrangements with charitable organizations such as the Canadian Breast Cancer Foundation and the Humane Society of Canada. We have recently introduced Chinese New Year cheques in selected markets with certain of our financial institution customers. History has shown that these new products increase the average value of orders we receive. The other way we're increasing the profitability of our core programs is by creating new, more efficient and more effective ordering systems for consumers. This is where our Cheque*Advisor* and Cheque*Central* services come into play. Our experience with these new ordering channels is that when consumers use them and become aware of the full scope of product choices we offer, they typically purchase higher value solutions.

WHAT ABOUT THE COMPLEMENTARY PROGRAMS AND SERVICES YOU TALKED ABOUT?

These are products that support and easily fit with our cheque supply programs and can benefit from the application of our data management or personalization capabilities. An example is our new Cheque*Essentials* program, launched late in 2003 as part of our strategy to enhance our solutions for small businesses when they are opening new accounts. In addition to cheques, Cheque*Essentials* includes high-demand personalized products bundled together such as deposit books, binders and endorsement stamps. Other examples are our security deposit bag program for small businesses, launched early in 2003, and our *eSwitch* service, which is now part of the new account opening process in several financial institutions.

AND THE FINAL STRATEGY?

We look to support our existing Canadian customers as they grow within the United States. In 2003, we were awarded a long-term contract by Centura Bank of Raleigh, North Carolina, a member of RBC Financial Group. We began supplying Centura Bank's cheque supply program in January 2004. Over the next couple of years, we expect our growth from our U.S. initiative to come from the growth in our customer's business. Our overall strategy here, by the way, is very focused, and we do not intend to move into the broader U.S. market, as we believe it is well served already.

WHAT RESULTS HAVE BEEN ACHIEVED SO FAR FROM THESE GROWTH STRATEGIES?

Positive results. Our revenues, cash flow and distributable cash per unit have all increased. The MD&A provides details on our historical results, but a few notable highlights to consider are these: Our Cheque*Advisor* and Cheque*Central* systems generated approximately 11% of all orders in 2003, up from approximately 8% in 2002, and we expect the volume handled by these ordering channels will increase to 25% within the next 18 to 24 months. Our security deposit bag program generated incremental revenue for us in 2003 and we expect it to generate $4 to $5 million in annual revenue in 2004. Additionally, our *eSwitch* service, while developing more slowly than anticipated, remains positively positioned to contribute in 2004 and beyond.

HOW MUCH CAPITAL DO YOU NEED TO FULLY APPLY THESE STRATEGIES?

We spent $8.3 million in maintenance capital during 2003 and we expect this figure to expand modestly in 2004 in support of our larger business platform. Our non-maintenance growth capital expense plans may require up to $15 million over the next few years. These funds support a variety of programs, some intended to save money, others to grow revenue – all designed, however, to be accretive.

ANY FINAL WORDS?

Yes, we understand that our success as a business is made possible by the efforts of our employees and the goodwill of our customers and unitholders. We wish to thank each group for their contributions in 2003. Our intention is to take what we've learned over the years – the power of commitment, the importance of customer relationships and the need to constantly evolve – and continue to apply these philosophies going forward, in a structured, strategic way to meet our commitments.

HISTORY

Davis + Henderson Income Fund (the "Fund" or the "Business") owns 100% of Davis + Henderson, Limited Partnership ("Davis + Henderson L.P."). Davis + Henderson L.P. and its predecessors have been serving Canadian financial institutions and their account holders for over 129 years.

The Fund acquired a 45.4% indirect interest in Davis + Henderson L.P. on December 20, 2001 upon completion of an initial public offering ("IPO"). In 2002, the Fund acquired the remaining balance of Davis + Henderson L.P. and now holds 100%.

The Fund's primary source of revenue and cash flow comes from the operation of cheque supply programs for Canadian financial institutions.

Serge Rivest
Vice President, Sales and Marketing

"Our Cheque*Advisor* program saves time for branch staff, improves convenience for customers and creates opportunities for us to serve consumers more effectively."

STRATEGY

The Fund's financial goal is to deliver stable and growing cash distributions to unitholders. To accomplish this objective the Fund has three key strategies:

- **Continue to grow profits** from its cheque supply program, increasing the value of the products and services by offering more product choices, enhanced product features and services, and by servicing consumers in direct ordering channels.
- **Grow profits by adding** complementary products to its existing programs and by offering new programs and services that financial institutions can provide to their customers.
- **Grow profits by offering** its products, programs and services to U.S. subsidiaries of Canadian financial institutions.

OPERATING RESULTS

Statement of Income

(in thousands of Canadian dollars except per unit amounts, unaudited)	Year ended December 31, 2003	2002[1]	2001[1]
Sales	$ 251,783	$ 228,259	$ 220,620
Cost of goods sold	145,485	128,246	126,338
Gross profit	106,298	100,013	94,282
	42.2%	43.8%	42.7%
Operating expenses	32,219	30,041	32,486
	12.8%	13.2%	14.7%
Operating income	74,079	69,972	61,796
	29.4%	30.7%	28.0%
Interest expense	4,630	4,527	133
Amortization	16,397	16,620	18,582
Income tax	4,595	3,314	15,984
Non-controlling interest	–	6,501	931
Net income for the period	$ 48,457	$ 39,010	$ 26,166
Net income per unit, basic and fully diluted	$ 1.2778	$ 1.1485	n/a

[1] The above financial information for the year ended December 31, 2001 presents the results of the Davis + Henderson business when it was operated as a division of the previous owner up to December 20, 2001 combined with the twelve-day period ended December 31, 2001 when it was operated by the Fund. The year ended December 31, 2002 was compiled from audited financial statements adjusted to remove the twelve-day period ended December 31, 2001.

Yves Denommé,
Vice President, Operations

"Over the last several years we have been investing in new automated equipment and processes, which not only have improved our cost efficiency, but also have expanded our capabilities to produce new innovative products."

Statement of Distributable Cash

(in thousands of Canadian dollars except per unit amounts, unaudited)	Year ended December 31, 2003	2002[1]
Net income for the period	$ 48,457	$ 39,010
Add:		
Non-controlling interest	–	6,501
Amortization	16,397	16,620
Future income tax	3,583	2,305
Cash flow from operations	68,437	64,436
Less:		
Distributions to non-controlling interest	–	6,501
Maintenance capital expenditures		
Capital and other assets	5,210	5,006
Contract payments	3,145	3,145
Distributable cash	$ 60,082	$ 49,784
Distributions declared	$ 51,567	$ 43,893
Net income per unit	$ 1.2778	$ 1.1485
Distributable cash per unit	$ 1.5844	$ 1.5025
Distributions per unit	$ 1.3599	$ 1.3200

[1] The information for the year ended December 31, 2002 was compiled from audited financial statements adjusted to remove the twelve-day period ended December 31, 2001.

Chad Alderson
Vice President and
Chief Technology Officer

"Davis + Henderson's electronic integration into our customers' technology platforms creates value for the financial institutions and increases the efficiency of our business."

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

For the twelve-month period ended December 31, 2003, the Business recorded sales of $251.8 million, an increase of $23.5 million, or 10.3%, over the prior year's sales of $228.3 million. One of two main factors contributing to the increase in sales was a change in the structure of one of the Business' customer contracts, which increased sales and cost of sales with minimal impact on gross profit for 2003. Excluding the impact of the changes in structure of this contract, the year-over-year increase in sales for the twelve months ended December 31, 2003, would have been $9.4 million or 4.2%. The other factor that drove the year-over-year improvement was the increase in the value of the orders received. This increase is attributable to product launches in late 2002 and higher revenues from the sale of security deposit bags, as well as increased order values associated with customer migration to the Business' Cheque*Central* and Cheque*Advisor* programs.

Cheque*Central* is the Business' web-based electronic product catalogue for in-home and in-branch ordering. Cheque*Advisor* is a program that allows telephone ordering for those who value direct contact and advice from Davis + Henderson staff during the purchase process. The Business' experience indicates that when consumers order directly from the Business, rather than through the branch of their financial institution, they are more aware of product choices and choose additional products and premium features.

The overall increase in revenues, generated by sales programs, occurred despite a low single digit percent reduction in cheque orders.

Management believes that declining cheque usage contributed to and will continue to contribute to declining cheque orders. Management further believes that other factors, including a significant number of orders received upon consumers opening new accounts and the migration by consumers towards orders with fewer cheques, will somewhat mitigate the impact related to reduced cheque usage.

For the twelve-month period ended December 31, 2003, gross profit increased $6.3 million, or 6.3%, from the prior comparable year. This increase was primarily attributed to the growth in sales described above, as well as increased efficiencies related to ordering and production.

The decrease in gross profit percentage to 42.2% in 2003 compared to 43.8% in the prior year was a function of the customer contract change described above.

Operating expense of $32.2 million for the twelve-month period ended December 31, 2003, increased from the prior year by $2.2 million, or 7.3%. The higher operating expenses in 2003 resulted from increased spending on customer service, increased product launch support costs, and increased costs associated with being a public company. Higher spending in the area of customer service primarily relates to activities associated with the Cheque*Advisor* program. Increased corporate costs include higher registration fees, increased insurance costs and increased advisor and professional fees.

Operating income of $74.1 million for the year ended December 31, 2003 increased $4.1 million, or 5.9%, over the prior year, primarily due to the current year's increase in sales, described above.

Net earnings before interest, income taxes, depreciation and amortization ("Operating income") is a metric used by many investors to compare companies on the basis of ability to generate cash from operations. It is not intended to be representative of results of operations determined in accordance with generally accepted accounting principles or cash available for distribution. Operating income may not be comparable to similarly titled amounts reported by other issuers.

Amortization of $16.4 million for the twelve-month period ended December 31, 2003, decreased $0.2 million, or 1.3%. This decrease in amortization occurred because deferred expenses became fully amortized during the current year. Partially offsetting this reduction was an increase in amortization related to investments made in 2002 and 2003 in digital printing technology and in the development of the Cheque*Central* cheque ordering application.

Interest expense of $4.6 million for the twelve-month period ended December 31, 2003, was consistent with amounts recorded in the previous year although there have been changes in the level of debt outstanding and effective interest rates during the 24-month period. In the first quarter of 2002, the Business' interest expense was lower than later quarters as it funded its debt on a floating-rate basis. Late in the first quarter of 2002, the Business implemented a hedging program, fixing interest rates on 60% of its debt. At the beginning of the third quarter of 2003, the Business paid down $8 million of its outstanding debt and in the fourth quarter paid down an additional $5 million on the revolving credit facility, thereby reducing interest expense. This reduction in debt was offset by an increase in interest expense as a result of entering into two additional interest-rate swaps in the third quarter of 2003. The Business has effectively fixed interest rates on all of its currently outstanding debt for terms ending between March 15, 2004 and June 30, 2008. The effective all-in interest rate as at December 31, 2003 was approximately 6.4%.

Joanne Sisco
Vice President, Corporate Data Services

"Everything we do as a business involves handling data.This capability is one of the areas that has allowed us to evolve and expand our business."

Income earned by the Business that is distributed annually to unitholders is not subject to taxation in the Business, but is taxed at the individual unitholder level. The Business' subsidiary is subject to taxation on its income at the statutory rates. Income tax expense of $4.6 million increased $1.3 million for the twelve-month period ended December 31, 2003 when compared to the prior year. The increase, which related to future income taxes, resulted from higher net income. Large corporations tax was the only cash tax paid and was approximately $1.0 million in both years.

During the first quarter of 2002 the Business expensed $6.5 million of paid and accrued distributions to its previous owner. This was reflected as a charge against income for the 2002 fiscal year. As a result of the Business' purchase of the balance of the Davis + Henderson business from the previous owner on April 2, 2002, there were no further distributions of this nature and, therefore, there was no comparable charge to income in 2003.

Net income of $48.5 million for the twelve months ended December 31, 2003 increased $9.4 million, or 24.2%, over the comparable period in the prior year. Excluding the charge for non-controlling interest, the twelve-month growth in net income was $2.9 million, or 6.5%.

On a per unit basis, distributable cash increased 5.5% in 2003, while cash distributions increased 3.0% year-over-year.

Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Business as net income for the period adjusted to remove non-cash items, including amortization and future income taxes, and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash since these expenditures are considered non-recurring and are intended to generate future growth in distributable cash and distributions.

Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. Further, the Fund's method of calculating distributable cash may not be comparable to similarly titled amounts reported by other issuers.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

For the twelve-month period ended December 31, 2002, the Business recorded sales of $228.3 million, an increase of $7.7 million, or 3.5%, over the prior year's sales of $220.6 million. The increase was attributed primarily to increases in the value of orders received as a result of the launch of new products. The Business continually seeks to increase the value of orders through adding complementary products, such as deposit books and security deposit bags, and by adding value and features to traditional products, including licensed designs, holograms and personalized expressions. During 2001, the Business recorded revenues related to a significant conversion program associated with a merger of two of the Business' financial institution customers. There were no equivalent conversion programs in 2002.

Suzanne Mandrozos
Vice President, Human Resources

"Customer satisfaction is built and maintained by a dedicated and committed employee group. We would like to thank our employees for the contribution they make each and every day."

For the twelve-month period ended December 31, 2002, gross profit of $100.0 million increased $5.7 million, or 6.1%, from the prior year and reflected the increase in sales described above, as well as increased efficiencies related to ordering, production and packaging automation.

Operating expense of $30.0 million for the twelve-month period ended December 31, 2002, decreased from the prior year by $2.4 million, or 7.5%. The higher operating expenses in 2001 were primarily attributable to a non-recurring restructuring provision of $6.1 million. The 2002 decrease was partially offset by incremental costs of approximately $2.3 million associated with the Fund becoming a public entity, additional expenses related to expanding the Business' call centres, as part of its program to have direct contact with consumers for ordering, and expenses incurred for technology to operate its web-based ordering. The incremental costs related to the Fund being a public entity included capital taxes, insurance, trustee and director fees, legal fees, transfer agency fees, filing fees and investor relations costs.

Operating income of $70.0 million during the twelve-month period ended December 31, 2002 increased $8.2 million, or 13.2%, over the prior year largely due to the prior year's restructuring charge. Excluding the prior year's charge, the increase in operating income was $2.1 million, or 3.1%, after the absorption of $2.3 million of expenses associated with activities related to the Fund being a public entity, as described above.

Interest expense was $4.5 million for the twelve-month period ended December 31, 2002, but only $0.1 million in 2001. This expense related primarily to the $80 million term loan, drawn on December 20, 2001, as part of the acquisition of the business from its previous owner. The loan was outstanding for only twelve days during 2001, but for the full twelve months in 2002.

Amortization of $16.6 million for the twelve-month period ended December 31, 2002 decreased $2.0 million, or 10.6%. The decrease was attributed to payments associated with certain customer contracts having been fully amortized, partially offset by higher amortization as capital assets were deployed in the business.

Income taxes in 2002 of $3.3 million were lower than the tax charge of $16.0 million in 2001. Income earned by the Business that is distributed annually to unitholders is not subject to taxation in the Business, but is taxed at the individual unitholder level. In 2001, as a division of the previous owner, all the taxable income would have been subject to corporate tax although no cash taxes were paid by the Business.

The non-controlling interest expense represents distributions paid and accrued to the previous owner of the Davis + Henderson business during the time the Fund owned less than 100% of the operating business. In 2001, the non-controlling interest existed for only the twelve days after December 20, 2001, whereas in 2002 this expense affected the first three months of the year.

Net income of $39.0 million in 2002 was $12.8 million higher than that earned in 2001 for the reasons discussed above.

Eight Quarter Statement of Income

(in thousands of Canadian dollars except per unit amounts, unaudited)	Q4	Q3	Q2	2003 Q1	Q4	Q3	Q2	2002 Q1
Sales	**$63,636**	$63,404	$62,676	$62,067	$58,938	$56,770	$56,689	$55,862
Cost of goods sold	**36,535**	36,564	36,363	36,023	33,020	31,408	31,629	32,189
Operating expenses	**8,324**	8,108	7,945	7,842	8,028	7,485	7,525	7,003
Operating income	**18,777**	18,732	18,368	18,202	17,890	17,877	17,535	16,670
Interest expense	**1,157**	1,151	1,171	1,151	1,138	1,183	1,212	994
Amortization	**3,949**	4,106	4,188	4,154	4,426	4,186	4,047	3,961
Income taxes	**1,366**	1,186	974	1,069	1,084	868	690	672
Non-controlling interest	**–**	–	–	–	–	–	–	6,501
Net income	**$12,305**	$12,289	$12,035	$11,828	$11,242	$11,640	$11,586	$ 4,542
Net income per unit, basic and fully diluted	**$0.3245**	$0.3241	$0.3174	$0.3119	$0.2964	$0.3070	$0.3055	$0.2396

The information for the quarter ended March 31, 2002 was compiled from audited financial statements adjusted to remove the twelve-day period ended December 31, 2001.

Catherine Martin
Chief Financial Officer and Secretary

"We actively manage our portfolio of revenue opportunities and various business risks, as we seek to deliver stable, ongoing cash flow."

Over the last eight quarters the Business has reported stable and growing revenues. During this period, the Business was not affected by seasonal fluctuations other than the number of business days in a particular quarter, which can cause minor quarter-over-quarter variances. Higher quarter-over-quarter growth in revenue in the first quarter of 2003 was attributable to a change in the structure of one of the Business' financial institution customer's contract. This contract change increased both sales and cost of sales with minimal impact on gross profit, thereby leading to a reduction in the gross profit percentage.

Operating expenses through the eight quarters remained relatively stable with a couple of exceptions. In the fourth quarter of 2002 operating expense increased $0.5 million in connection with the launch of new products and replacement catalogues, as well as costs incurred to support the Cheque*Advisor* program and the branch-based web ordering Cheque*Central* program. The other increase occurred in the fourth quarter of 2003 due to increased spending on customer service, which mainly relates to the Cheque*Advisor* program.

Eight Quarter Statement of Distributable Cash

(in thousands of Canadian dollars except per unit amounts, unaudited)	2003 Q4	Q3	Q2	Q1	2002 Q4	Q3	Q2	Q1[1]
Net income	**$ 12,305**	$ 12,289	$ 12,035	$ 11,828	$ 11,242	$ 11,640	$ 11,586	$ 4,542
Add:								
Non-controlling interest	–	–	–	–	–	–	–	6,501
Amortization	**3,949**	4,106	4,188	4,154	4,426	4,186	4,047	3,961
Future income taxes	**1,114**	933	717	819	831	616	437	421
Cash flow from operations	**17,368**	17,328	16,940	16,801	16,499	16,442	16,070	15,425
Less:								
Distributions to non-controlling interest	–	–	–	–	–	–	–	6,501
Maintenance capital expenditures:								
Capital and other assets	**1,476**	1,202	1,312	1,220	1,245	1,683	1,590	488
Contract payments	**645**	625	625	1,250	645	625	625	1,250
Distributable cash	**$ 15,247**	$ 15,501	$ 15,003	$ 14,331	$ 14,609	$ 14,134	$ 13,855	$ 7,186
Distributions declared	**$ 13,083**	$ 12,889	$ 12,889	$ 12,707	$ 12,707	$ 12,707	$ 12,320	$ 6,158
Net income per unit	**$ 0.3245**	$ 0.3241	$ 0.3174	$ 0.3119	$ 0.2964	$ 0.3070	$ 0.3055	$ 0.2396
Distributable cash per unit	**$ 0.4021**	$ 0.4088	$ 0.3956	$ 0.3779	$ 0.3853	$ 0.3727	$ 0.3654	$ 0.3791
Distributions per unit	**$ 0.3450**	$ 0.3399	$ 0.3399	$ 0.3351	$ 0.3351	$ 0.3351	$ 0.3249	$ 0.3249

[1] The information for the quarter ended March 31, 2002 was compiled from audited financial statements adjusted to remove the twelve-day period ended December 31, 2001.

Cash flow from operations showed consistent growth through the eight quarters, with the exception of the first quarter of 2002 when the Fund did not own 100% of the business. Similarly, distributable cash per unit increased through the quarters with some variation from quarter to quarter as a result of the timing of maintenance capital expenditures.

SELECTED BALANCE SHEET INFORMATION

(in thousands of Canadian dollars, unaudited)	2003	Year ended December 31, 2002	2001
Total assets	$ 458,844	$ 476,405	$ 278,790
Total long-term liabilities	$ 71,980	$ 84,789	$ 86,663

Total assets of $458.8 million at December 31, 2003, decreased by $17.6 million, or 3.7%, as a result of reduced cash balances upon repayments of debt, the draw down of future tax assets and the continued amortization of intangible assets. During 2003, the Business paid down $13 million of its revolving credit facility.

Long-term liabilities decreased by $12.8 million to $72.0 million at December 31, 2003 primarily as a result of the reduction in term debt.

Total assets of $278.8 million as at December 31, 2001 increased to $476.4 million by December 31, 2002, primarily as a result of increases in goodwill and future income taxes on the purchase by the Fund of the remaining 50.1% of Davis + Henderson L.P. on April 2, 2002, to bring the Fund's indirect holding to 100% of the operating business. As well, cash levels increased in 2002, as distributions were less than cash flow generated.

Long-term liabilities decreased from $86.7 million at December 31, 2001 to $84.8 million at December 31, 2002 as a result of payments on committed contract obligations.

CASH FLOW AND LIQUIDITY

The following sections analyze the Consolidated Statements of Cash Flow in the Audited Consolidated Financial Statements of Davis + Henderson Income Fund. The balances reported for December 31, 2002 included the twelve-day period ended December 31, 2001.

Initial Public Offering

The Fund completed an IPO on December 20, 2001, and sold 17.2 million units to the public for net proceeds of $160.4 million. These proceeds, together with the $80.0 million term loan provided under the Fund's credit facilities, were used to purchase a 45.4% limited partnership interest in Davis + Henderson L.P. On January 10, 2002, the Fund issued an additional 1.7 million units to the public, upon the exercise of the underwriters' over-allotment option, for net proceeds to the Fund of $16.2 million. These proceeds were used to acquire an additional limited partnership interest of 4.5% in Davis + Henderson L.P. On April 2, 2002, the Fund used net proceeds from the sale of 19.0 million units to the public of $188.7 million to acquire the remaining partnership interest in Davis + Henderson L.P.

Cash Flow from Operations

Cash flow from operations is calculated by the Fund as net income adjusted to add back income allocated to non-controlling interest, amortization, and future income taxes. It is a metric used by many investors to compare companies on the basis of ability to generate cash from operations. It is not intended to be representative of results of operations determined in accordance with generally accepted accounting principles or cash available for distribution. Cash flow from operations may not be comparable to similarly titled amounts reported by other issuers.

During the twelve-month period ended December 31, 2003, the Business generated $68.4 million in cash flow from operations, a $3.4 million, or 5.2% increase above the same period in the prior year including the twelve-day period ended December 31, 2001. The Fund's non-cash working capital balances decreased slightly, generating a small amount of additional cash flow. In 2002, the Business generated increased cash from growth in payables and improved receivables balances, which occurred early in the year. As expected, these improvements did not recur in 2003.

Cash Used for Investments

(in thousands of Canadian dollars, unaudited)	Year ended December 31, 2003	2002[1]
Maintenance capital		
Machinery and equipment	$ 734	$ 281
Computer and software equipment	4,391	4,728
Other	85	47
Total maintenance capital	$ 5,210	$ 5,056
Contract payments, maintenance	3,145	3,145
Total maintenance expenditures	$ 8,355	$ 8,201
Non-maintenance capital		
U.S. services development	$ 389	$ 897
Digital printing presses	1,736	1,350
Other	12	381
Total non-maintenance capital	$ 2,137	$ 2,628
Contract payments, non-maintenance	700	1,850
Total non-maintenance expenditures	$ 2,837	$ 4,478
Total capital investments	$ 11,192	$ 12,679

[1] The information for the year ended December 31, 2002 includes the twelve-day period ended December 31, 2001.

The table above sets out capital expenditures, which include both capital assets and payments under customer contracts. The Fund has various payment obligations under customer contracts. Certain long-term customer contracts provide for contract or program initiation payments to be made and these are treated as non-maintenance capital in that they are not regularly recurring disbursements. Other customer contract payments are made annually over the life of the contract and therefore are treated as recurring

maintenance capital. The aggregate of all contract payments, both fixed and variable, recognize, among other things, the high degree of integration and sharing between Davis + Henderson and the financial institution of the many activities related to ordering, data handling, customer service and other activities undertaken by financial institutions as part of the operation of the cheque supply program.

The Fund's capital program provides for continued annual maintenance expenditures to be funded by the cash flow from operations. The annual cost is expected to increase in line with the growth in business which is expected to be primarily directed towards its call centre activities, the implementation of new programs within the cheque supply business and the maintenance of its information technology infrastructure.

Non-maintenance expenditure plans for fiscal 2002 to 2005, which support the development of new programs and services and major production efficiency initiatives, are expected to require a total of approximately $18.0 million, of which $4.9 million has been spent to date. With respect to the U.S. initiative, to date the Fund has spent $1.3 million of the anticipated expenditures of $2.0 million.

Bank Financing

Effective December 20, 2001, the Business put in place a $98 million, non-amortizing term credit facility due December 20, 2004. On closing of the IPO, the Business drew $80 million under this facility, but made no further draws after December 20, 2001. At the end of the second quarter of 2003, the Business renewed and extended the credit facility with certain amendments. The Business now has $98 million of term credit facilities due June 30, 2006, which consists of a $60 million non-revolving term loan and a $38 million revolving credit facility. As of June 30, 2003, the Business had drawn $20 million under the revolving credit facility. During the third quarter the Business reduced this by $8 million and late in the fourth quarter by an additional $5 million. As at December 31, 2003, the revolving balance was $7 million for total borrowings of $67 million. From time to time, the Business expects to apply certain of its cash balances to reduce the outstanding amounts under its credit facilities in order to more effectively manage its capital. The Business is permitted to draw on the revolving facility's available balance of $31 million to fund major capital expenditures or for other general corporate purposes.

The Business' credit facilities bear interest on a floating-rate basis. At the end of the first quarter in 2002, the Business implemented a hedging program, fixing interest rates on 60% of its then outstanding debt. In July 2003, the Business entered into two additional interest-rate swaps such that 100% of the debt was hedged. Concurrently with the December pay down of the revolving credit facilities, the Fund terminated the matching hedge, which was to mature in March 2004.

The Business has effectively fixed interest rates on all of its outstanding debt at rates of between 5.89% and 7.33%. The average effective interest rate was 6.4% as of December 31, 2003.

Distributions

The Fund paid distributions of $51.4 million during the twelve-month period ended December 31, 2003 compared to $40.4 million for the same period in the prior year. Distributions were lower in 2002 as the Fund owned less than 50% of the operating business for part of that year. During the first quarter of 2002, Davis + Henderson L.P. recorded distributions to the previous owner of the Davis + Henderson business of

$7.4 million. Such payments were expensed by the Fund as distributions to non-controlling interests. On a per unit basis, distributions in 2003 were $1.36, an increase of 3% over fiscal 2002.

Monthly distributions are declared by the Fund for unitholders of record on the last business day of each month and are paid within 31 days following each month end.

On March 1, 2004, the Fund announced that its monthly distribution would increase from $0.1150 per unit (equivalent to $1.38 per annum) to $0.1168 per unit (equivalent to $1.40 per annum) effective for unitholders of record on March 31, 2004, to be paid April 30, 2004. This change represents a 1.5% increase over the previous month's distribution.

During 2003, the Fund announced increases in distributions in both April and October. The October 20, 2003 announcement increased monthly distributions from $0.1133 per unit (equivalent to $1.36 per annum) to $0.1150 per unit (equivalent to $1.38 per annum) effective for unitholders of record on October 31, 2003. The April 2003 announcement increased distributions from $0.1117 per unit (equivalent to $1.34 per annum) to $0.1133 per unit (equivalent to $1.36 per annum).

In 2002, the Fund announced an increase in distributions in July, increasing distributions from $0.1083 per unit (equivalent to $1.30 per annum) to $0.1117 per unit (equivalent to $1.34 per annum).

The Fund may issue an unlimited number of trust units. Each trust unit is transferable and represents an equal, undivided beneficial interest in any distribution from the Fund and the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders.

As at December 31, 2003 and January 30, 2004, 37,920,792 trust units were outstanding. This total amount has remained unchanged since April 2, 2002.

Cash Balances

At December 31, 2003 cash and cash equivalents totalled $5.0 million, compared to $12.0 million at December 31, 2002. The decrease in cash and cash equivalents reflected the $13 million used to reduce the Fund's indebtedness. The Fund may, from time to time, apply portions of its cash balances going forward to reduce the outstanding balance of its credit facilities in order to more effectively manage its capital.

Cash flow from operations, together with cash balances on hand and unutilized term credit facilities, are expected to be sufficient to fund the Business' operating requirements, capital expenditures and anticipated distributions.

Contractual Obligations – Payments Due by Period

(in thousands of Canadian dollars, unaudited)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term indebtedness	$ 67,000	$ –	$ 67,000	$ –	$ –
Disbursement obligations on customer contracts	6,650	3,025	3,625	–	–
Operating leases	9,756	3,090	4,005	1,136	1,525
Employee future benefits	1,355	93	214	258	790
	$ 84,761	$ 6,208	$ 74,844	$ 1,394	$ 2,315

OPERATING RESULTS FOR THE FOURTH QUARTER

Statement of Income

(in thousands of Canadian dollars, unaudited)	Quarter ended December 31, 2003	2002
Sales	$ 63,636	$ 58,938
Cost of goods sold	36,535	33,020
Operating expenses	8,324	8,028
Operating income	18,777	17,890
Interest expense	1,157	1,138
Amortization and income taxes	5,315	5,510
Net income	$ 12,305	$ 11,242
Net income, basic and fully diluted	$ 0.3245	$ 0.2964

Statement of Cash Flows – Summary

(in thousands of Canadian dollars, unaudited)	Quarter ended December 31, 2003	2002
Cash flows from operating activities	$ 17,321	$ 16,736
Cash flows used for distributions	(13,018)	(12,708)
Cash flows used in other financing activities	(5,000)	–
Cash flows from investing activities	(2,591)	(3,858)
Net change in cash	$ (3,288)	$ 170

For the fourth quarter of fiscal 2003, sales increased $4.7 million, or 8.0%, when compared to the same quarter in the prior year. This growth in sales is attributed to increases in the value of orders received, primarily as a result of the release of new products, and a change in the structure of one of the Fund's customer contracts, which increased revenues and cost of sales with minimal impact on gross profit. Excluding the impact of the change in the structure of this contract, sales increased $1.8 million, or 3.2%.

Gross profit for the fourth quarter of 2003 of $27.1 million increased $1.2 million, or 4.6%, when compared to the gross profit of $25.9 million for the fourth quarter of 2002. This increase relates to the changes in sales described above and to increased production efficiencies.

Gross profit as a percentage of sales declined from 44.0% in the fourth quarter of 2002 to 42.6% in the fourth quarter of 2003 as a result of the change in the structure of the customer contract, referred to above.

Operating expenses in the fourth quarter of 2003 were $8.3 million, an increase of $0.3 million over the comparable period in the prior year, and relate to the increased spending on customer service, specifically Cheque*Advisor*, and on increased product launch support costs.

Operating income of $18.8 million increased $0.9 million, or 5.0%, over the same period last year.

Net interest expense of $1.2 million for the fourth quarter of 2003 was consistent with that reported for the same quarter in the prior year. For more detail on interest expense in the fourth quarter of 2003, refer to the year-over-year discussion comparing 2003 operating results to 2002.

In the fourth quarter of 2003 amortization expense decreased by $0.5 million compared with the prior year as certain balances became fully amortized.

Future income tax increased by $0.3 million to $1.1 million as a result of increased profits.

Net income of $12.3 million for the quarter ended December 31, 2003, increased $1.1 million, or 9.5%, when compared with the same quarter in the previous year.

Statement of Distributable Cash

(in thousands of Canadian dollars except per unit amounts, unaudited)	Quarter ended December 31, 2003	2002
Net income for the period	$ 12,305	$ 11,242
Add:		
Amortization	3,949	4,426
Future income tax	1,114	831
Cash flow from operations	17,368	16,499
Less:		
Maintenance capital expenditures		
Capital and other assets	1,476	1,245
Contract payments	645	645
Distributable cash	$ 15,247	$ 14,609
Net income per unit	$ 0.3245	$ 0.2964
Distributable cash per unit	$ 0.4021	$ 0.3853
Distributions per unit	$ 0.3450	$ 0.3351

Cash flow from operations increased to $17.4 million in the fourth quarter of 2003, up $0.9 million, or 5.3%, compared with the same quarter in 2002. The Business recorded higher capital expenditures in the fourth quarter of 2003 over 2002, as a result of timing differences in implementing its capital plan. Distributable cash of $15.2 million for the fourth quarter, or $0.4021 per unit, increased 4.4%, compared with the same quarter last year.

In October 2003, the Fund announced its third increase in monthly distribution since its IPO and increased monthly distributions from $0.1133 per unit (equivalent to $1.36 per annum) to $0.1150 per unit (equivalent to $1.38 per annum) effective for unitholders of record on October 31, 2003. During the fourth quarter of 2003 the Fund declared distributions of $13.1 million compared to $12.7 million for the same period in the prior year, an increase of 3%.

CHANGES IN ACCOUNTING POLICY

The Business reviews all revisions to the Canadian Institute of Chartered Accountants ("CICA") Handbook when issued. All revisions are considered and applied by the effective date or earlier if practical.

The following is a discussion of relevant Handbook revisions that were released or became effective during the year ended December 31, 2003:

Handbook Section 1100, Canadian Generally Accepted Accounting Principles ("GAAP"), establishes standards for financial reporting in accordance with GAAP. It describes what constitutes GAAP and its sources. This section also provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures, when a matter is not dealt with explicitly in the primary sources of generally accepted accounting principles.

Handbook Section 1400, General Standards of Financial Statement Presentations, requires that financial statements should present fairly, in accordance with GAAP, the financial position, results of operations, and cash flows of the Business. They must provide sufficient information about certain transactions or events of such size, nature and incidence that their disclosure is necessary to understand the Business' financial position in a manner that is clear and understandable. Comparatives must be included unless the comparative information is not meaningful or GAAP permits otherwise.

Both sections were to be applied prospectively on October 1, 2003. In addition to the accounting policies employed in the development of external financial statements, management has reviewed all transactions subsequent to this date and concluded that all are in compliance with primary sources of GAAP as outlined in Section 1100 and were prepared in accordance with Section 1400.

Accounting Guideline 13 (AcG-13) on hedge accounting, issued by the CICA, presented guidelines for the identification, designation, documentation, and effectiveness of hedging relationships, for the purpose of applying hedge accounting as well as the discontinuance of hedge accounting. The guideline is to be applied to hedging relationships commencing in fiscal periods beginning on or after July 1, 2003.

Interest-rate swaps are used by the Business to effectively fix interest rates on all of its outstanding long-term indebtedness. Management has reviewed the process in which these hedges are identified, designated and documented, as well as the process in which the hedges are continually assessed to determine their effectiveness, and concluded that the process is consistent with AcG-13 and that continual use of hedge accounting is appropriate.

Handbook Section 3063, Impairment of Long-lived Assets, was effective for fiscal periods beginning on or after April 1, 2003. Under this standard, an impairment loss should be recorded when the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. Management has reviewed all long-lived assets and concluded that they are carried at amounts that exceed the sum of the undiscounted cash flows expected from their use and eventual disposition, but do not exceed their fair value.

BUSINESS RISK

The following describes certain risks, events and uncertainties that could cause the reported financial information to not necessarily be indicative of future operating results. For a more comprehensive discussion of these and other risks, refer to the Fund's most recently filed Annual Information Form available at www.sedar.com.

Reliance on Contracts with Financial Institution Customers

The Business is dependent upon certain significant financial institutions in providing services for their account holders. Services and products provided to the Business' six major financial institution customers accounted for approximately 72% of the Business' 2003 revenue.

The contracts with financial institution customers are typically for initial terms ranging from three to five years. During 2003, the Business renewed and extended one of its contracts with a major financial institution on terms no less favourable than those in effect prior to extension.

Consolidation in the financial institution industry could affect revenues from cheque supply outsourcing programs. Margins on cheque orders obtained through financial institutions could be pressured as those financial institutions seek their own merger synergies. Typically, upon the merger of branches and systems in a bank combination, the Business has historically assisted the merging banks by supplying replacement cheque product as well as additional services as part of a conversion program.

Competition from Substitute Products

Banking and related industries have introduced alternatives to paper-based payment products including automated teller machines, pre-authorized debits, credit cards, debit cards, and electronic payment systems, such as telephone and web-based payment systems. Additional forms of alternative payment methods, including e-commerce and software programs, are being developed continually and may also compete with the products and services offered by the Business. Use of these payment alternatives as a replacement for cheques negatively affects the number of cheques written and can affect the number of cheque package reorders that the Business receives.

Approximately 47% of the Business' revenues are related to reorders and are, therefore, affected by cheque usage. The balance of the Business' revenues are derived from either new orders or other products unaffected by cheque usage. Approximately 24% of the Business' revenues are related to reorders for cheques on personal chequing accounts and 23% of revenues are for business cheque reorders on current accounts. Management believes that the adoption of alternative payment methods has primarily affected personal cheque reorders, and business cheque reorders to a less significant degree. Management also believes that this occurs as businesses prefer utilizing cheques for managing, controlling and tracking cash flow, whereas individuals often choose payment alternatives based upon convenience. A mitigating trend affecting the number of reorders the Business receives from individuals has been the migration to order quantities which have a fewer number of cheques in a package. While reduced cheque usage lengthens the reorder cycle, migration to cheque packages containing fewer cheques shortens the reorder cycle.

If the Business' revenue related to personal and business cheque reorders decreased by 1%, this would result in a revenue decline of approximately $1.2 million.

Competition from Competitors Supplying Similar Products and Services

Some of the Business' competitors (particularly those in the United States) have economic resources greater than those of the Business and are well-established suppliers.

The Business looks to continually strengthen its leading position in the market segments in which it competes by increasing the value it delivers to its customers. The Business has enhanced and continues to enhance the value of its products, the efficiency of its interactive processes with its customers and its development of new programs.

Development of Products and Service Options

The Business' ability to continue to generate comparable net income and cash flow is based, in part, on the addition of new products and services, which could be sold to existing financial institution customers of the Business. It seeks to add new products and services by leveraging its core capabilities, including electronic order processing, data management, customer contact service and fulfilment capabilities. The Business is bound by a non-competition agreement under which it cannot compete in certain non-cheque related businesses operated by the previous owners of the Davis + Henderson business for a period ending on April 2, 2007. This may limit the ability of the Business to introduce new products or services in those applicable areas.

During 2002, the Business introduced the *eSwitch* program, a service that enables the institution's customers to more conveniently move pre-authorized transactions between accounts, and expanded the supply to small businesses of deposit and related products. In 2003, the Business added an enhanced account-opening program called Cheque*Essentials*, which provides small businesses with high-demand personalized products, such as deposit books, binders and endorsement stamps, bundled together with cheques.

Leverage

The Business has debt service obligations under its credit facilities that mature and are fully repayable on June 30, 2006. As at December 31, 2003, the Business had drawn $67 million of its term facility and is permitted to draw an additional $31 million available for general corporate purposes.

The Business continuously re-examines its financial strategy with the intent of reducing refinancing risk. With respect to interest rate risk, as discussed in more detail in Note 9 to the financial statements, the Business has hedged, with interest-rate swaps, 100% of the total debt currently outstanding for terms ending between March 15, 2004 and June 30, 2008.

Financial Instruments

The main risks to the Business associated with interest-rate swaps are counter-party (credit) risk and early termination risk. The Business mitigates counter-party risk by conducting swaps only with highly rated financial institutions. Should the Business reduce its indebtedness that the swaps relate to, the Business would likely choose also to reduce the relevant swap amounts at such time. To the extent that market interest rates applicable to the remaining term of such swaps are lower than the fixed rate agreed to in the swap, the Business would incur a break cost to do so. The aggregate value of such unrealized loss as at December 31, 2003 was $1.2 million. Under the Business' accounting policies, the relevant portion of such unrealized loss would be recognized within interest expense upon early termination or reduction of the swap amount. Upon maturity of the swaps, or in the event that the Business increases its outstanding indebtedness, the Business would be exposed to the risk that higher interest rates may exist at such time.

Postal Interruption

The Business' profit margins are partially dependent on continued availability of uninterrupted postal delivery service for ongoing distribution of completed cheque orders and, to a lesser extent, receipt of orders from account holders of financial institution customers. A significant portion of the Business' completed orders are sent to account holders through services provided by Canada Post Corporation

pursuant to a contract. A prolonged interruption in Canada's postal service, as experienced in late 1997, could have a material adverse affect on the Business' profit margins as it would be required to engage third party delivery organizations to deliver completed orders.

Foreign Exchange Exposure

Revenues and expenses of the business are primarily contracted in Canadian dollars. In January of 2004, the Business began to provide its cheque supply program to the U.S. subsidiary of a Canadian financial institution customer. This long-term supply contract is priced in U.S. dollars. Most of the costs incurred to deliver these programs are also contracted in U.S. dollars. The net profit of this business will be subject to exchange rate fluctuations, but such fluctuations are not expected to be material to the reported results.

OUTLOOK

Based on the Business' targeted objectives of 3% to 5% annual sales growth, the maintenance of operating margins and capital spending for maintenance capital at levels required to support the business, the Fund's objective is to modestly grow distributions to unitholders.

As set out in the Business' statement of strategy, the objective is to grow profits from the core cheque supply program and use the capabilities already in place to introduce and expand complementary products and programs and to serve the Business' Canadian bank customers as they expand their operations in the United States.

The Business' operational plans include many initiatives which, combined, are intended to allow the Business to meet its objectives. Meeting the growth objective is not dependent on any one of the initiatives as most of the new programs and services are individually not large. Examples of such programs include the continued rollout of the security deposit bag program, the pre-authorized credit and debit switching service and the recently implemented Cheque*Essentials* program. Additionally, the continued increase in adoption rate of the Business' Cheque*Central* and Cheque*Advisor* programs is expected to increase the Business' average value per order.

The Business' initiative to service the U.S. subsidiary of a Canadian financial institution customer is one of the larger initiatives. Production under this long-term supply contract started January 1, 2004. While this initiative is expected to increase the revenue base by 3%, margins on this business are lower than those applicable to the Business' Canadian-based business. This service initiative is expected to broaden in time and forms part of the Business' ongoing overall revenue growth objective of 3% to 5%.

The Business' capital program provides for continued annual maintenance expenditures to be funded by the cash flows from operations. The annual cost is expected to increase in line with the growth in business which is expected to be directed primarily towards its call centre activities, the implementation of new programs within the cheque supply business and the maintenance of its information technology infrastructure.

Non-maintenance expenditure plans from 2002 to 2005, which support the development of new programs and services and major production efficiency initiatives, are expected to require $18 million, of which $4.8 million has been spent to date. On the U.S. initiative, to date the Business has spent $1.3 million of the anticipated expenditures of $2 million.

Certain information included in this report is forward looking and based upon assumptions and anticipated results that are subject to risks and uncertainties associated with the Business and the economic environment in which the Business operates. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. Risks and uncertainties are discussed above, as well as in greater detail in the Business' most recently filed Annual Information Form.

January 30, 2004

SUPPLEMENTARY FINANCIAL INFORMATION

OPERATING RESULTS

(see notes below)

(in thousands of Canadian dollars except per unit amounts, unaudited)	Year ended December 31, 2003 (reported)	Three months ended December 31, 2003 (reported)	Three months ended September 30, 2003 (reported)	Three months ended June 30, 2003 (reported)	Three months ended March 31, 2003 (reported)
Sales	$ 251,783	$ 63,636	$ 63,404	$ 62,676	$ 62,067
Cost of goods sold	145,485	36,535	36,564	36,363	36,023
Operating expenses	32,219	8,324	8,108	7,945	7,842
Operating income	74,079	18,777	18,732	18,368	18,202
Interest expense	4,630	1,157	1,151	1,171	1,151
Amortization and income taxes	20,992	5,315	5,292	5,162	5,223
Net income for the period	48,457	12,305	12,289	12,035	11,828
Add:					
Amortization	16,397	3,949	4,106	4,188	4,154
Future income taxes	3,583	1,114	933	717	819
Cash flow from operations	68,437	17,368	17,328	16,940	16,801
Less: Maintenance capital expenditures:					
Capital and other assets	5,210	1,476	1,202	1,312	1,220
Contract payments	3,145	645	625	625	1,250
Distributable cash[1]	$ 60,082	$ 15,247	$ 15,501	$ 15,003	$ 14,331
Net income per unit	**$ 1.2778**	**$ 0.3245**	**$ 0.3241**	**$ 0.3174**	**$ 0.3119**
Cash flow from operations per unit	**$ 1.8047**	**$ 0.4579**	**$ 0.4570**	**$ 0.4467**	**$ 0.4431**
Distributable cash per unit	**$ 1.5844**	**$ 0.4021**	**$ 0.4088**	**$ 0.3956**	**$ 0.3779**
Distributions per unit	**$ 1.3599**	**$ 0.3450**	**$ 0.3399**	**$ 0.3399**	**$ 0.3351**

[1] Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Fund as net income for the period adjusted to remove non-cash expenses, including amortization and future income taxes, and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash as these expenditures are considered non-recurring expenditures which are intended to generate future growth in distributable cash and distributions. Management believes that this earnings measure is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. Further, the Fund's method of calculating distributable cash may not be comparable to similarly titled amounts reported by other issuers.

CONDENSED BALANCE SHEET

(in thousands of Canadian dollars, unaudited)	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Cash and cash equivalents	$ 4,981	$ 8,269	$ 14,573	$ 11,255
Other current assets	15,779	17,187	16,000	16,531
Future income taxes	31,715	32,829	33,762	34,479
Capital and other assets	35,396	36,916	38,074	37,605
Goodwill and other intangible assets	370,973	371,556	372,139	372,722
	$ 458,844	$ 466,757	$ 474,548	$ 472,592
Payables and other current liabilities	$ 31,136	$ 32,652	$ 31,223	$ 30,311
Other long-term liabilities	4,980	5,599	6,220	4,323
Long-term indebtedness	67,000	72,000	80,000	80,000
Unitholders' equity	355,728	356,506	357,105	357,958
	$ 458,844	$ 466,757	$ 474,548	$ 472,592

(in thousands of Canadian dollars except per unit amounts, unaudited)	Period ended December 31, 2002 (pro forma)	Three months ended December 31, 2002 (reported)	Three months ended September 30, 2002 (reported)	Three months ended June 30, 2002 (reported)	Three months ended March 31, 2002 (pro forma)[2]	Twelve days ended December 31, 2001 (pro forma)[2]
Sales	$ 232,288	$ 58,938	$ 56,770	$ 56,689	$ 55,862	$ 4,029
Cost of goods sold	130,836	33,020	31,408	31,629	32,189	2,590
Operating expenses	30,743	8,028	7,485	7,525	7,003	702
Operating income	70,709	17,890	17,877	17,535	16,670	737
Interest expense	4,651	1,138	1,183	1,212	994	124
Amortization and income taxes	20,542	5,510	5,054	4,737	4,633	608
Net income for the period	45,516	11,242	11,640	11,586	11,043	5
Add:						
Amortization	17,211	4,426	4,186	4,047	3,961	591
Future income taxes	2,305	831	616	437	421	–
Cash flow from operations	65,032	16,499	16,442	16,070	15,425	596
Less: Maintenance capital expenditures:						
Capital and other assets	5,056	1,245	1,683	1,590	488	50
Contract payments	3,145	645	625	625	1,250	–
Distributable cash[1]	$ 56,831	$ 14,609	$ 14,134	$ 13,855	$ 13,687	$ 546
Net income per unit	$ 1.2003	$ 0.2965	$ 0.3070	$ 0.3055	$ 0.2912	$ 0.0001
Cash flow from operations per unit	$ 1.7149	$ 0.4351	$ 0.4336	$ 0.4238	$ 0.4068	$ 0.0157
Distributable cash per unit[1]	$ 1.4987	$ 0.3853	$ 0.3727	$ 0.3654	$ 0.3609	$ 0.0144
Distributions per unit	$ 1.3627	$ 0.3351	$ 0.3351	$ 0.3249	$ 0.3249	$ 0.0427

[2] The above information sets forth unaudited quarterly information and has been prepared on a pro forma basis as if Davis + Henderson L.P. were 100% owned by Davis + Henderson Income Fund since December 20, 2001 (as compared to 45.4% and 49.9% ownership for the periods ending December 31, 2001, and March 31, 2002, respectively). The pro forma balances presented for the twelve-day period ending December 31, 2001 and for the three-month period ending March 31, 2002 are based on the actual statements of the Fund adjusted to remove the expense related to distributions paid to the non-controlling owner and to increase the number of units outstanding to 37,920,792 as at December 20, 2001 (versus the 17,235,000 units outstanding from December 20, 2001 to January 9, 2002, 18,955,000 units outstanding from January 10, 2002 to April 1, 2002, and 37,920,792 units outstanding subsequent to April 1, 2002).

(in thousands of Canadian dollars unaudited)	December 31, 2002	September 30, 2002	June 30, 2002	March 31, 2002	December 31, 2001
Cash and cash equivalents	$ 12,046	$ 11,876	$ 11,203	$ 8,429	$ 8,730
Other current assets	16,142	15,775	14,749	17,256	15,972
Future income taxes	35,298	36,129	36,745	37,182	37,603
Capital and other assets	39,614	41,196	42,981	43,853	45,175
Goodwill and other intangible assets	373,305	373,889	374,472	185,911	169,648
	$ 476,405	$ 478,865	$ 480,150	$ 292,631	$ 277,128
Payables and other current liabilities	$ 32,778	$ 34,407	$ 33,374	$ 33,845	$ 31,684
Other long-term liabilities	4,789	4,154	5,404	5,413	6,663
Long-term indebtedness	80,000	80,000	80,000	80,000	80,000
Unitholders' equity	358,838	360,304	361,372	173,373	158,781
	$ 476,405	$ 478,865	$ 480,150	$ 292,631	$ 277,128

DISTRIBUTION HISTORY

Month	2003	2002	2001
		Distributions[1] per unit	
January	$ 0.1117	$ 0.1083	$ –
February	0.1117	0.1083	–
March	0.1117	0.1083	–
April	0.1133	0.1083	–
May	0.1133	0.1083	–
June	0.1133	0.1083	–
July	0.1133	0.1117	–
August	0.1133	0.1117	–
September	0.1133	0.1117	–
October	0.1150	0.1117	–
November	0.1150	0.1117	–
December[2]	0.1150	0.1117	0.0427
	$ 1.3599	$ 1.3200	$ 0.0427

[1] Monthly distributions are made to unitholders of record on the last business day of each month and are paid within thirty-one days following each month end.

[2] Distribution paid in 2001 is in respect of the twelve calendar days from December 20, 2001 to December 31, 2001.

TAX ALLOCATION OF DISTRIBUTIONS

The composition of declared distributions had the following tax allocations during the following fiscal periods:

	2003 Amount	2003 Per unit	2003 Amount Percent	2002[1] Amount	2002[1] Per unit	2002[1] Amount Percent
Dividend income	$ 10,037	$ 0.2647	19.5%	$ 7,536	$ 0.2302	16.9%
Interest income	35,828	0.9448	69.5%	31,918	0.9742	71.5%
Return of capital	5,702	0.1504	11.0%	5,177	0.1583	11.6%
Total distributions for the period	$ 51,567	$ 1.3599	100.0%	$ 44,631	$ 1.3627	100.0%

[1] Balances presented for 2002 include distributions made to unitholders of record on December 31, 2001.

OTHER STATISTICS

(in thousands of Canadian dollars except per unit amounts)	Three months ended Dec. 31, 2003	Three months ended Sept. 30, 2003	Three months ended June 30, 2003	Three months ended March 31, 2003	Three months ended Dec. 31, 2002	Three months ended Sept. 30, 2002	Three months ended June 30, 2002	Three months ended March 31, 2002	Twelve days ended Dec. 31, 2001
Trading price range of units (TSX: "DHF.UN")									
High	$ 17.50	$ 15.65	$ 15.20	$ 13.69	$ 13.25	$ 12.13	$ 11.25	$ 11.20	$ 10.64
Low	$ 15.10	$ 14.52	$ 12.91	$ 12.48	$ 11.22	$ 10.45	$ 10.00	$ 10.11	$ 9.90
Close	$ 17.45	$ 15.30	$ 15.00	$ 12.94	$ 12.86	$ 12.10	$ 10.95	$ 10.51	$ 10.64
Average daily volume	67	99	82	92	139	165	176	149	266
Number of units outstanding at period end	37,921	37,921	37,921	37,921	37,921	37,921	37,921	18,955	17,235
Market capitilization at period end	$ 661,718	$ 580,188	$ 568,812	$ 490,695	$ 487,661	$ 458,842	$ 415,233	$ 199,217	$ 183,380

FINANCIAL REPORTING RESPONSIBILITY OF MANAGEMENT

The accompanying consolidated financial statements for Davis + Henderson Income Fund (the "Fund") have been prepared by management of Davis + Henderson, Limited Partnership ("Davis + Henderson L.P.") and approved by the Board of Directors of Davis + Henderson G.P. Inc. and by the Trustees of the Fund. Management is responsible for the preparation and presentation of these financial statements and all the financial information contained within this annual report within reasonable limits of materiality. The Fund's consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. The financial information throughout the text of this annual report is consistent with that in the financial statements.

To assist management in discharging these responsibilities, Davis + Henderson L.P. maintains a system of internal controls which are designed to provide reasonable assurance that the Fund's consolidated assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Management recognizes its responsibilities for conducting the Davis + Henderson L.P. affairs in compliance with established financial standards and applicable laws, and for the maintenance of proper standards of conduct in its activities.

KPMG LLP, Chartered Accountants, are appointed by the unitholders and have audited the consolidated financial statements of the Fund in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Fund.

The Board of Directors of Davis + Henderson G.P. Inc. has appointed an Audit Committee composed of three directors who are not members of management. The Audit Committee meets periodically with management and the auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. It is responsible for reviewing the annual and interim consolidated financial statements and the report of the auditors. The Audit Committee reports the results of such review to the Board of Directors and makes recommendations with respect to the appointment of the Fund's auditors. In addition, the Board of Directors may refer to the Audit Committee on other matters and questions relating to the financial position of the Fund and its subsidiaries.

The Board of Directors of Davis + Henderson G.P. Inc. and the Trustees of the Fund are responsible for ensuring that management of Davis + Henderson L.P. fulfills its responsibilities for financial reporting and are responsible for approving the consolidated financial statements of Davis + Henderson Income Fund.

C. Sanford McFarlane
Chief Executive Officer
Davis + Henderson G.P. Inc.
January 30, 2004

Robert Cronin
President and Chief Operating Officer
Davis + Henderson G.P. Inc.

Catherine Martin
Chief Financial Officer
Davis + Henderson G.P. Inc.

AUDITORS' REPORT

To the Unitholders of Davis + Henderson Income Fund

We have audited the consolidated balance sheet of Davis + Henderson Income Fund as at December 31, 2003 and the consolidated statements of income and deficit and cash flows for the year then ended. These financial statements are the responsibility of the management of Davis + Henderson, Limited Partnership on behalf of the Trustees of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for the year ended December 31, 2002 were reported on by another firm of chartered accountants.

KPMG LLP

KPMG LLP
Chartered Accountants
Toronto, Canada
January 30, 2004

CONSOLIDATED BALANCE SHEET
(in thousands of Canadian dollars)

	December 31, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,981	$ 12,046
Accounts receivable	7,432	7,943
Inventory	6,527	6,866
Prepaid expenses	1,820	1,333
	20,760	28,188
Future income taxes (note 2)	31,715	35,298
Capital assets (note 3)	25,408	26,413
Other assets (note 4)	9,988	13,201
Intangible assets (note 5)	11,588	13,920
Goodwill (note 6)	359,385	359,385
	$ 458,844	$ 476,405
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 23,750	$ 24,047
Distributions payable to unitholders	4,361	4,236
Current portion of disbursement obligations on customer contracts (note 7)	3,025	4,495
	31,136	32,778
Disbursement obligations on customer contracts (note 7)	3,625	3,500
Obligations relating to employee future benefits (note 8)	1,355	1,289
Long-term indebtedness (note 9)	67,000	80,000
	103,116	117,567
Unitholders' Equity:		
Trust units (note 10)	365,385	365,385
Deficit	(9,657)	(6,547)
	355,728	358,838
Commitments (note 11)		
	$ 458,844	$ 476,405

The accompanying notes are an integral part of these financial statements.

Paul Damp
Trustee

Allan Gotlieb
Trustee

Brad Nullmeyer
Trustee

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

(in thousands of Canadian dollars except per unit amounts)

Years ended	December 31, 2003	December 31, 2002[1]
Sales	$ 251,783	$ 232,288
Cost of goods sold	145,485	130,836
	106,298	101,452
Operating expenses	32,219	30,743
	74,079	70,709
Interest expense	4,630	4,651
Amortization expense	16,397	17,211
Income before income taxes and non-controlling interest	53,052	48,847
Income taxes (note 2):		
Current	1,012	1,026
Future	3,583	2,305
	4,595	3,331
Income before non-controlling interest	48,457	45,516
Non-controlling interest	–	7,432
Net income for the period	48,457	38,084
Deficit, beginning of period	(6,547)	–
Distributions	(51,567)	(44,631)
Deficit, end of period	$ (9,657)	$ (6,547)
Net income per trust unit, basic and fully diluted	$ 1.2778	$ 1.0948

[1] Year ended December 31, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

Years ended	December 31, 2003	December 31, 2002[1]
Cash and cash equivalents provided by (used in):		
OPERATING ACTIVITIES		
Net income	$ 48,457	$ 38,084
Add:		
Non-controlling interest	–	7,432
Amortization expense	16,397	17,211
Future income taxes	3,583	2,305
	68,437	65,032
Changes in non-cash working capital items	66	7,518
Changes in obligations relating to employee future benefits	66	51
	68,569	72,601
FINANCING ACTIVITIES		
Gross proceeds from issuance of trust units	–	388,691
Issuance costs	–	(23,306)
Proceeds from (repayment of) non-revolving term loan	(20,000)	80,000
Proceeds from revolving credit facility	7,000	–
Distributions paid to public unitholders	(51,442)	(40,395)
Distributions paid to non-controlling interest	–	(7,432)
	(64,442)	397,558
INVESTING ACTIVITIES		
Expenditures on capital assets	(7,265)	(7,509)
Expenditures on other assets	(3,927)	(5,170)
Acquisition of business (note 6)	–	(445,434)
	(11,192)	(458,113)
Increase (decrease) in cash and cash equivalents for the period	(7,065)	12,046
Cash and cash equivalents, beginning of period	12,046	–
Cash and cash equivalents, end of period	$ 4,981	$ 12,046
Supplementary information:		
Cash interest paid	$ 5,728	$ 4,882
Cash income taxes paid	$ 993	$ 1,014

[1] Year ended December 31, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars except unit and per unit amounts)

Nature of Business

Davis + Henderson Income Fund (the "Fund") is a limited purpose trust, formed under the laws of the Province of Ontario by declaration of trust dated November 6, 2001. The Fund was formed to indirectly acquire the partnership units of Davis + Henderson, Limited Partnership ("Davis + Henderson L.P.")

Davis + Henderson L.P. is engaged primarily in the business of providing cheque supply program services to Canadian financial institutions. Davis + Henderson L.P. commenced operations on December 20, 2001, when it acquired the Davis + Henderson business. Simultaneously on December 20, 2001, the Fund completed an initial public offering and acquired a 45.4% interest in Davis + Henderson L.P. On January 10, 2002, under an over-allotment option, the Fund acquired an additional 4.5% interest in Davis + Henderson L.P. On April 2, 2002, the Fund acquired the remaining balance of Davis + Henderson L.P. and now holds 100%.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared using the following accounting policies generally accepted in Canada. The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and sales and expenses during the reporting period. Actual results could differ from these estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Fund and its wholly owned subsidiaries, consisting of D + H Holdings Corp. ("D + H Holdings"), Davis + Henderson G.P. Inc., and Davis + Henderson L.P. All inter-company transactions and accounts have been eliminated upon consolidation.

Financial Instruments

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, disbursement obligations on customer contracts, distributions payable to unitholders, interest-rate swaps and long-term indebtedness. The Fund does not enter into financial instruments for trading or speculative purposes.

Credit Risk The Fund's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and interest-rate swaps. The Fund, in its normal course of business, is exposed to credit risk from its customers. The Fund is exposed to credit loss in the event of non-performance by counterparties to the interest-rate swaps but does not anticipate non-performance by these counterparties. Concentrations of credit risk with respect to accounts receivable are limited due to the credit rating of customers serviced by the Fund and the generally short payment terms.

Fair Value The fair value of indebtedness that bears interest at fixed rates is based on discounted future cash flows using rates currently available for debt of similar terms and maturities. The carrying value of other financial instruments, cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and current portion of the disbursement obligations on customer contracts approximates fair value due to their short-term maturities.

Derivative Financial Instruments Derivative financial instruments are utilized to reduce interest-rate risk on the Fund's debt. The Fund's policy is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument. The Fund believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument, as the term to maturity, the (notional) principal amount and the interest-rate basis in the instruments all match the terms of the debt instrument being hedged.

Interest-rate swap agreements are used as part of the Fund's program to manage the fixed and floating interest rate mix of the Fund's total debt outstanding and related overall cost of borrowing. The interest-rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expenses on the hedged debt instrument. The related amount payable to or receivable from swap counterparties is included as an adjustment to accrued interest.

In the event of a termination of an interest-rate swap agreement, gains and losses would be deferred under other current, or non-current, assets or liabilities on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishments of the debt obligation, any realized or unrealized gain or loss from the swap is recognized in the consolidated statement of income at the time of extinguishment.

Cash and Cash Equivalents

All temporary cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

The Fund and its subsidiaries maintain cash balances in bank deposit accounts or investments in amounts that exceed federally insured limits. The Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

Inventory

Inventory of raw materials is stated at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis.

Capital Assets

Capital assets are recorded at cost. Amortization is provided annually at rates calculated to write off the assets over their estimated useful lives as follows:

Computer, furniture and fixtures	10% to 30% declining balance
Machinery and equipment	10% to 20% declining balance
Leasehold improvements	straight-line over term of the lease

Deferred Charges

The Fund capitalizes direct costs related to the development of new products and services until the commencement of commercial operation, at which time all related costs are amortized on a straight-line basis over their estimated useful life.

Payments associated with certain major customer contracts are amortized over the term of the related long-term supply contracts.

Goodwill

Goodwill reflects the price paid for the Davis + Henderson business in excess of the fair market value of net tangible assets and identifiable intangible assets acquired. Goodwill is not amortized but is tested for impairment annually.

Intangible Assets

Intangible assets represent the fair market value of rights related to the cheque supply outsourcing contracts obtained by the Fund upon the acquisition of the Davis + Henderson business. Intangible assets are amortized over seven years. The carrying value of the intangible assets is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Revenue Recognition

The Fund is the principal on all sales transactions and has presented sales based on the gross amount billed to the customers. Revenue for services and products sales are recognized when the services are completed and the products are shipped.

Net Income per Unit

Net income per unit is calculated by dividing net income by the weighted average number of units outstanding during the period.

Foreign Currency Translation

Foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the period end. Other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction. Revenue and expense items are translated at the average monthly rate of exchange for the period, except for amortization of capital and other assets, which are translated at the historical rates of the related assets.

Future Income Taxes

Future income taxes of the Fund's subsidiary are determined using the asset and liability method. Under this method of tax allocation, future tax assets and liabilities are determined on the basis of differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Employee Future Benefits

The Fund provides certain post-retirement benefits for eligible employees, which are not funded. These benefits include health care, life insurance and dental benefits. Obligations under the post-retirement benefit plan are actuarially determined and are accrued by the Fund.

For the Fund's defined contribution pension plan, annual pension expense is based on the Fund's required contribution to the plan during the period.

2. INCOME TAXES

Income tax obligations relating to distributions from the Fund are the obligations of the unitholders and, accordingly, no provision for income taxes on the income of the Fund has been made. A provision for income taxes is recognized for the Fund's subsidiary, D+H Holdings, as this subsidiary is subject to tax, including large corporations tax.

The provision for income taxes in the consolidated statement of income and unitholders' equity represents an effective rate different from the Canadian statutory rate of 34.27% (2002 – 35.21%). The differences are as follows:

Years ended	December 31, 2003	December 31, 2002[1]
Income before income taxes and non-controlling interest	$ 53,052	$ 48,847
Income subject to tax in the hands of the non-controlling interest	–	6,280
Income subject to tax in the hands of the unitholders	41,709	35,342
Income of subsidiary company	11,343	7,225
Canadian statutory rate	34.27%	35.21%
Income taxes at statutory rate	3,887	2,544
Increase (decrease) resulting from:		
Large corporations tax	1,012	1,026
Net tax effect of expenses that are deductible for income tax purposes	(304)	(239)
Income tax expense, current and future	$ 4,595	$ 3,331

[1] Year ended December 31, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

The tax effect of temporary differences of the Fund's subsidiary that give rise to significant portions of the future income tax assets is presented below:

	December 31, 2003	December 31, 2002
Future income tax assets:		
Goodwill	$ 28,451	$ 32,705
Capital assets	(1,386)	2,508
Loss carryforward	4,339	–
Other	311	85
	$ 31,715	$ 35,298

Loss carryforward is available to claim against income taxes up to 2010.

(in thousands of Canadian dollars except unit and per unit amounts)

3. CAPITAL ASSETS

	December 31, 2003		
	Cost	Accumulated amortization	Net
Computer, furniture and fixtures	$ 24,360	$ 11,889	$ 12,471
Machinery and equipment	13,566	2,647	10,919
Leasehold improvements	3,667	1,649	2,018
	$ 41,593	$ 16,185	$ 25,408

	December 31, 2002		
	Cost	Accumulated amortization	Net
Computer, furniture and fixtures	$ 19,523	$ 5,745	$ 13,778
Machinery and equipment	11,057	1,235	9,822
Leasehold improvements	3,646	833	2,813
	$ 34,226	$ 7,813	$ 26,413

Amortization during the year ended December 31, 2003 was $8,270 (2002 – $7,813).

4. OTHER ASSETS

	December 31, 2003	December 31, 2002
Cost:		
Long-term supply contracts	$ 18,495	$ 17,242
Deferred charges and other	2,353	2,949
	20,848	20,191
Accumulated amortization	(10,860)	(6,990)
	$ 9,988	$ 13,201

Amortization during the year ended December 31, 2003 was $5,795 (2002 – $6,990).

5. INTANGIBLE ASSETS

	December 31, 2003	December 31, 2002
Cost:	$ 16,328	$ 16,328
Accumulated amortization	(4,740)	(2,408)
	$ 11,588	$ 13,920

Amortization during the year ended December 31, 2003 was $2,332 (2002 – $2,408).

6. ACQUISITION

Effective December 20, 2001, the Fund acquired a 45.4% interest in Davis + Henderson L.P. An over-allotment option was exercised by the Fund's underwriters effective January 10, 2002, and an additional 4.5% interest in Davis + Henderson L.P. was acquired by the Fund. On April 2, 2002, the Fund acquired the remaining 50.1% of Davis + Henderson L.P. As a result of these transactions, effective April 2, 2002, the Fund owned indirectly 100% of the outstanding partnership units of Davis + Henderson L.P. The acquisitions of partnership units were accounted for by the purchase method of accounting, and the results of the partnership were consolidated from the date of the initial acquisition of December 20, 2001. The assets acquired and consideration given were as follows:

Assets acquired, at fair value:	
Assets	$ 81,730
Liabilities	33,284
Net assets acquired, at fair value	48,446
Future income tax assets acquired	37,603
Goodwill	359,385
Total	$ 445,434
Consideration:	
Net proceeds from issuance of trust units	$ 365,385
Proceeds from term loan	80,000
Other acquisition-related adjustments	49
Total	$ 445,434

7. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

	December 31, 2003	December 31, 2002
Current portion	$ 3,025	$ 4,495
Long-term portion	3,625	3,500
Total disbursement obligations on customer contracts	$ 6,650	$ 7,995

The Company has customer contract disbursement obligations payable as of December 31, 2003 as follows:

2004	$ 3,025
2005	2,375
2006	1,250
	$ 6,650

(in thousands of Canadian dollars except unit and per unit amounts)

8. EMPLOYEE FUTURE BENEFITS

The Fund's principal pension plan is the "Defined Contribution Pension Plan for the Employees of Davis + Henderson," a defined contribution pension plan that provides pensions to substantially all employees with greater than two years of service. Total expense for the Fund's defined contribution pension plan for the year ended December 31, 2003 was $1.0 million (2002 – $0.9 million).

In addition to the Fund's pension plan, the Fund also provides certain health care, life insurance and dental benefits to eligible employees under a non-pension post-retirement benefit plan. Information about the Fund's non-pension post-retirement benefit plan is as follows:

Years ended	December 31, 2003	December 31, 2002[1]
Accrued non-pension post-retirement benefit obligation		
Balance at beginning of year	$ 1,289	$ –
Acquisitions	–	1,238
Service cost — benefits earned	50	47
Interest cost	84	81
Benefits paid	(68)	(77)
Balance at end of year	1,355	1,289
Accrued non-pension post-retirement benefit liability		
Plan deficit	1,355	1,289
Accrued non-pension post-retirement benefit liability	1,355	1,289
Company expense		
Service cost — benefits earned	50	47
Interest cost	84	81
Net non-pension post-retirement plan expense	$ 134	$ 128
Actuarial assumptions		
Discount rate	6.75%	6.75%
Medical inflation[2]	9.00%	9.00%
Dental inflation	5.00%	5.00%

[1] Year ended December 31, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.
[2] Medical inflation is assumed to be 9% in 2003, grading down to 5% in 2009.

9. LONG-TERM INDEBTEDNESS

	December 31, 2003	December 31, 2002
Non-revolving term loan	$ 60,000	$ 80,000
Revolving credit facility	7,000	–
	$ 67,000	$ 80,000

The Fund has $98 million of term credit facilities due June 30, 2006 (2002 – $98 million), consisting of a $60 million non-revolving term loan and a $38 million revolving credit facility. The facilities bear interest at rates that depend on certain financial ratios of the Fund and vary in accordance with borrowing rates in Canada and the United States. The credit facilities, including any hedge contracts with the lenders, are secured in first priority by a pledge of substantially all of the Fund's assets and by a pledge of the Fund's indirect ownership interests in the Fund.

As of December 31, 2003, the Fund has entered into interest-rate swap hedge contracts with its lenders, such that the borrowing rates on all of its outstanding term indebtedness are effectively fixed at interest rates of between 5.89% and 7.33% per annum for terms ending between March 15, 2004 and June 30, 2008. As of December 31, 2003, the fair value of outstanding interest-rate swaps was approximately $1.2 million (2002 – $1.4 million), which the Fund would be required to pay if it were to close out the contracts.

10. TRUST UNITS

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's declaration of trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Trust unit transactions from inception of the Fund were as follows:

	Number of units	Gross proceeds	Issuance costs	Net proceeds
Initial issuance of trust units, December 20, 2001	17,235,000	$ 172,350	$ 11,910	$ 160,440
Units issued January 10, 2002	1,720,000	17,200	989	16,211
Units issued April 2, 2002	18,965,792	199,141	10,407	188,734
Balances, December 31, 2003 and 2002	37,920,792	$ 388,691	$ 23,306	$ 365,385

The weighted average number of units outstanding during 2003 are 37,920,792 (2002 – 32,643,348).

(in thousands of Canadian dollars except unit and per unit amounts)

11. COMMITMENTS

As of December 31, 2003, the Fund has annual lease obligations with respect to real estate, vehicles and equipment as follows:

2004	$ 3,090
2005	2,618
2006	1,387
2007	649
2008	487
Thereafter	1,525
	$ 9,756

12. RELATED PARTY TRANSACTIONS

The Fund has a supplies and equipment contract with an entity related to an Officer of the Fund. The total amount paid during the year ended December 31, 2003 was $134 (2002 – $171). Based on a review of amounts charged by third parties for similar services, the Fund determined the contract to be at fair market value.

In addition, the Fund paid fees totalling $19 (2002 – nil) to a company controlled by a Director of the Fund in respect of physical sites and telecommunication services for focus groups.

13. SIGNIFICANT CUSTOMERS

The Fund operates in one segment, an integrated service offering to Canadian financial institutions and their account holders. For the year ended December 31, 2003, the Fund earned 72% (2002 – 69%) of its revenue from six customers.

TRUSTEES AND BOARD OF DIRECTORS

Directors of Davis + Henderson G.P. Inc. and Trustees of Davis + Henderson Income Fund:

Paul Damp
Chairman, Director and Trustee
Managing Partner, Kestrel Capital Partners

Paul Damp was non-executive vice-chairman and director of AIT Advanced Information Technologies Inc. from September 1999 to July 2002. He served as non-executive chairman and director of Architel Systems Corporation from June 1998 to July 2000. From October 1996 to June 1998, Mr. Damp was chairman, director and chief executive officer of Accugraph Corporation. Prior to November 1994, he was president and chief operating officer of SHL Systemhouse Inc., and prior to October 1990, a partner at KPMG LLP. Mr. Damp is also a director of Cognos Incorporated, and a director and trustee of Home Equity Income Trust as well as several other private companies.

Allan Gotlieb
Director and Trustee
Chairman, Sotheby's Canada and Senior Advisor, Stikeman Elliott LLP

Allan Gotlieb was chairman of Canada Council (1989 to 1994), Canadian Ambassador to the United States (1981 to 1989), and Undersecretary of State for External Affairs (1977 to 1981). Mr. Gotlieb is also chairman of Donner Canadian Foundation, The Ontario Heritage Foundation and a Trustee of the Art Gallery of Ontario. Mr. Gotlieb is a Companion of the Order of Canada.

Bradley Nullmeyer
Director and Trustee
President and CEO, A&A Capital

Bradley Nullmeyer was, prior to 2001, CEO Vendor Finance of CIT Group and, prior to 1999, president of Newcourt Financial.

Helen K. Sinclair
Director
CEO and Chairman, BankWorks Trading Inc.

Helen Sinclair was president of the Canadian Bankers Association from October 1989 to June 1996 and previously with The Bank of Nova Scotia. She is currently also a director of The Toronto-Dominion Bank, York University, McCain Capital Corporation, the Canada Pension Plan Investment Board and Transat A.T. Inc.

Gordon J. Feeney
Director
Corporate Director

Gordon Feeney joined RBC Financial Group in 1959 and retired as deputy chairman in June 2001. Mr. Feeney is currently chairman of Finance Corporation of Bahamas, Canadian Management Centre, Moneris Solutions Corporation and RBC Mutual Funds Inc. Mr. Feeney is also a director of American Management Association, Business Development Bank of Canada, International Survey Research Group and Rideau Inc.

C. Sanford McFarlane
Director and Officer
Chief Executive Officer, Davis + Henderson, Limited Partnership

Sanford McFarlane joined Davis + Henderson in 1975 as vice president of finance and became president in 1983. He has held the position of CEO since 1992. Mr. McFarlane has served on several boards and charitable organizations and is currently on the cabinet of the Toronto division of the United Way.

Robert J. Cronin
Director and Officer
President and Chief Operating Officer, Davis + Henderson, Limited Partnership

Robert Cronin has been employed by Davis + Henderson in his current capacity since 1996. Prior to this, he held senior management roles with several companies including SHL Systemhouse Inc. and Integrated Network Services Inc.

COMMITTEES OF THE BOARD

The members of each committee of the Board of Directors of Davis + Henderson G.P. Inc. are:

Audit
Gordon J. Feeney (Committee Chair)
Paul Damp
Bradley Nullmeyer

Compensation and Corporate Governance
Helen K. Sinclair (Committee Chair)
Paul Damp
Allan Gotlieb

EXECUTIVE TEAM

Sanford McFarlane
Chief Executive Officer

Bob Cronin
President and Chief Operating Officer

Chad Alderson
Vice President and Chief Technology Officer

Yves Denommé
Vice President, Operations

Suzanne Mandrozos
Vice President, Human Resources

Catherine Martin
Chief Financial Officer

Serge Rivest
Vice President, Sales and Marketing

Joanne Sisco
Vice President, Corporate Data Services

CORPORATE INFORMATION

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Transfer Agent:
CIBC Mellon Trust Company

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Torys LLP

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DHF.UN

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Annual Meeting
The annual general meeting of unitholders of Davis + Henderson Income Fund will be held at 4:00 p.m. on Tuesday, May 4, 2004 at the TSX Conference Centre, The Exchange Tower, 130 King Street West, Toronto, Ontario.

Copies of the Annual Report may be obtained from:
The Secretary, Davis + Henderson Income Fund,
939 Eglinton Avenue East, Suite 201,
Toronto, Ontario M4G 4H7

OUR CORE VALUES

We live by a well-defined set of core values – principles that we believe in and strive to uphold.

As a customer-focused organization, we believe that innovation and accountability are at the heart of our core values.

As a publicly traded company, we believe that meeting our commitments to unitholders is critical.

As an employer, we believe teamwork and mutual respect for others makes great things happen.

And as a business, we believe in making a positive difference through our actions. We encourage employee volunteerism and support charities across the country.

*"We are particularly pleased to have been recognized by the United Way in each of the last 12 years with their **Platinum Award** for participation."*

DESIGN: BRYAN MILLS GROUP WWW.BRYANMILLS.COM EDITORIAL: FUNDAMENTAL COMMUNICATIONS

Did You Know

- Davis + Henderson has been serving Canada's financial institutions since 1875
- We provide products and services, on behalf of these financial institutions, to 20 million individual account holders and more than one million small businesses
- We process more than 11 million orders annually
- 11% of our orders were placed directly with us over the telephone or Internet during 2003, up from 8% in 2002
- Approximately 44% of our total revenue is derived from serving the small business sector
- To small businesses, we provide cheques, deposit forms, security deposit bags, business cards and stationery, labels, wallets, binders and computer forms
- Half of our revenue is independent of cheque usage, as a significant portion of our revenue comes from new bank account openings
- We allow consumers to "Express" themselves through our licensing agreements with household names such as Disney, the NHL, Star Trek, Loonie Tunes, the Muppets, Anne Geddes and the Group of Seven or to donate part of their order cost to worthy causes such as the Canadian Breast Cancer Foundation
- During 2003, the Fund reduced total debt outstanding by $13 million
- We paid distributions of $1.36 per unit during 2003, up from $1.32 per unit in 2002
- We went public on December 20, 2001 at $10.00 per unit and over the next two years the unit price increased to close at $17.45 per unit on December 31, 2003
- Our market capitalization at December 31, 2003 was $661.7 million and, in 2003, 84,800 units traded each day on average

Davis + Henderson Income Fund Toronto Stock Exchange: "DHF.UN" Website: www.dhif.com